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China, Peoples Republic of

Dairy Livestock and Poultry

China's Reaction to the EU Dioxin Problem

1999

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Report Highlights:

On June 9, China decided to suspend imports of meat, dairy products and poultry produced after January 15 in Belgium, France, the Netherlands and Germany, including raw materials and semi-finished products related to them. This suspension will likely be in effect for many months and will provide increased opportunities for dairy product exporters from Australia, New Zealand and the USA.

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I. Circular Notice Bans Products

Shanghai's Municipal Health Bureau distributed a notice on June 10, 1999 to carry out an urgent circular to suspend the importation, processing and sales of a range of dairy, meat and poultry products from Belgium, France, the Netherlands and Germany. The circular was released by the Ministry of Health in Beijing on the afternoon of June 9, 1999.

According to the China Daily, the official English language newspaper of the Chinese government, of June 11, 1999, "China decided to suspend imports of meat, dairy products and poultry produced after January 15 in the four countries, including raw materials and semi-finished products related to them. To facilitate local health departments in their check of livestock, poultry and dairy products that have come from the four countries since January 15, the ministry is collaborating with the customs and quarantine departments to detail the source and size of the imports. Initial statistics from Chinese Customs indicate that China imported 101 metric tons of meat and poultry from Europe in the first five months of this year, according to an official with the Ministry of Health. Products already imported would be sealed and banned from being sold."

II. Action to Safeguard Consumers

Starting on June 10, authorities have staged a brisk campaign to remove these products from store shelves in Shanghai and around the country. There have been daily updates on TV and other major media. Prime time television news showed supermarket managers rushing to remove infant formula from shelves in order to protect the public health and comply with the government's ruling. Health inspectors are checking all major supermarkets and department stores and even randomly probing smaller stores. All the above mentioned products are required to be pulled off store shelves. In Shanghai, customers who have purchased such products previously can return them to the store for a refund or replacement. Store managers are returning their stocks to local distributors, who will likely be looking for compensation from their trading counterparts in the four European countries.

European products pulled from the two supermarkets closest to the ATO Shanghai office include infant formula, cheese, yogurt, and UHT cream and milk. Newspaper reports from Singapore note that European chocolate, cookies, and some pastas have been withdrawn from supermarket shelves in Singapore, but enforcement has not

reached that level in the stores we visited in Shanghai. It is still easy to buy Belgian butter cookies and chocolate in a nearby upscale market.

One of the largest state-owned supermarket chains in Shanghai, Lianhua, took immediate action after they received the notice. They checked all imported dairy products on their shelves in more than 300 stores and removed imported dairy products from the four countries. They also promised that customers who had purchased those products would be allowed to get their money back.

III. Trade and Trade Policy Implications of the Ban

The move is having a notable impact primarily on dairy products, such as milk powder and infant formula. Since milk powder is just entering the summer low season, losses for distributors are not expected to be as great. However, infant formula products that normally enjoy year-round sales are expected to be hardest hit. Meat and poultry products are also suffering but to a lesser extent, as these four countries are not major suppliers of meat or poultry to the Chinese market. In larger supermarkets and hypermarkets, cheese, yogurt and other high-end dairy products from the four European countries disappeared overnight. Since the entire campaign and the health concerns are highly publicized by the state-run media, consumer awareness is high. Therefore, store managers have no incentive in leaving the banned products on the shelves, since no one is likely to buy them anyway.

The situation is creating favorable market conditions, in the short run at least, for imported meat, poultry and dairy products from competitor countries, such as Australia, New Zealand, and the USA. New Zealand prices on UHT cream have reportedly skyrocketed in recent days and Australia does not manufacture the currently sought after one-liter packages of UHT cream used by large hotels and bakeries. Today, three days after the start of the media campaign publicizing the ban, local newspapers feature front-page articles on the health concerns over dioxin contamination and show photographs of store clerks pulling product off the shelves. A Shanghai newspaper even had a list of brands and packaging specifications of dairy products banned from the city's retail outlets. At the same time, enterprising distributors of New Zealand milk powder and infant formula have placed sizable colorful ads in popular local newspapers, featuring "Free of Contamination" signs and a world map showing just how far from Europe their dairy products are manufactured.

Even before the dioxin issue appeared last week, the EU was not a major supplier of meat products to China primarily because they are competitive only in speciality cold cuts and sausage products for the high-end food service trade, and China restricts trade in pork products in an effort to protect its own industry.

Upscale supermarkets that carried products containing European meat, eggs, or dairy ingredients promptly pulled them from their shelves while restaurants and hotels are reportedly not purchasing any of these products from the entire European Union. Major importers and distributors are turning to Australia, New Zealand, and the USA to make up for product shortfalls. New Zealand and Australia are the primary competitors to the EU in the category of imported, consumer-oriented dairy products but the USA is a welcome alternative for several leading importers. One major importer is increasing its weekly purchases of American cheese and is searching for U.S. suppliers of full cream in UHT packaging. Fortunately, the ATO Shanghai has escorted two buyers teams to the USA in the past 10 months to make contacts with U.S. suppliers. Two of these buyers started importing American cheese and yogurt by air in September 1998 so they are having no problems increasing their weekly orders.

The last time China banned French cheese, it took three years before the ban was lifted. Traders estimate that this ban might last at least 12 months. Note that there is no large reservoir of goodwill between the EU and China on agricultural trade issues since both are ardent proponents of protectionism. For example, the EU banned all Chinese poultry products after the December 1997 avian influenza outbreak in Hong Kong and has not yet lifted the ban after 18 months. This continues to cause problems for the Chinese poultry industry which had formerly shipped large quantities of frozen chicken breast meat to EU countries.

IV. China's Own Problems with Foot and Mouth Disease

China has its own problems with an April-May 1999 outbreak of Foot and Mouth Disease (FMD) in Shanghai and in neighboring provinces. Since this outbreak has largely been covered up by the Chinese government and the government-controlled media, consumers have been left to rumors from friends and relatives for news on this subject. More than 2000 dairy cattle were slaughtered in Shanghai in May and this is likely just a small portion of the overall problem. As a result of the lack of public notification and public education, there is widespread ignorance in Shanghai about the perceived dangers to human health of eating domestic pork, beef, and milk. In fact there is no danger to the health of consumers from the outbreak of FMD, but many people in Shanghai do not understand this and are taking no chances. The problem with FMD is most serious near Shanghai and is not considered a serious issue among consumers and restaurant owners in Beijing.

It is interesting to note the contrast between China's swift government actions to inform the general public and to remove European products when faced with the dioxin issue compared with China's lack of public notification about foot and mouth disease. It appears that China follows international standards of behavior when dealing with disease problems of other countries yet does not follow international standards of public notification when disease problems occur within China. Perhaps China's future membership in the WTO will help to encourage its government to adopt consistent international standards of behavior and public notification about all animal health diseases and their effects on human health.

V. Conclusions and Implications for the United States

The reaction of many Shanghainese to the FMD outbreak has been to avoid domestic beef, pork and milk, and many well-off consumers had already started buying expensive UHT milk and milk powder imported from Europe and Australia. No doubt the newfound dioxin problem in the EU combined with problems encountered in Hong Kong (avian flu) and Chinese (FMD) during the past 18 months has left many people in China wondering whether meat and dairy products are safe to eat any more. More Chinese people than ever before will be studying the labels of food products to check on their origin and date of production.

With reportedly the safest meat supply in the world, the USA may possibly benefit in the long run from the disease problems of other countries. In the short run, however, some Chinese consumers are avoiding beef, pork, and milk produced in China and in the EU, and they may hesitate to substitute other country's products until their strong emotions cool down. The continuation of ongoing activities to educate government officials, traders, and retailers about the safety of American meat and dairy products will likely be the best way to deal with this situation in the coming months. Furthermore, ongoing efforts to link importers and distributors to U.S. suppliers will also bear fruit.

Appendix 1: "Stores Stop Selling Food Contaminated by Dioxin"

The following is a an article printed in the official China Daily newspaper on June 12, 1999:

“Stores Stop Selling Food Contaminated by Dioxin, by Jiang Jingen

Following the State’s ban on the selling of dioxin-contaminated food products from some European countries, supermarkets and shopping centers in some of China’s big cities started to remove some dairy products from their shelves.

In Guangzhou, a city in South China, the cancer-causing dioxin has fueled wide-spread alarm among citizens. The sales volume of dairy products from the Netherlands, Germany, Belgium and France has nosedived, local Yangcheng Evening News reported on Thursday. Most products imported after January 15, including some world-famous trademarks such as Nestle, have been removed from store shelves, the newspaper said. It quoted management members from the city’s major stores as saying that the decision was not imposed by the government but rather a move to prevent consumers from taking in any potentially harmful substances.

Beijing’s major shopping centers, such as the Friendship Store, Modern Plaza and Guiyou shopping center, have taken immediate measures to inspect their dairy products imported from the four European countries after the Ministry of Health issued a circular on June 9 (Wednesday). “We have temporarily stopped selling the mentioned dairy products and we will have them carefully examined,”a management member with the Modern Plaza told China Daily. “Luckily, we haven’t found any products that were imported from the four countries after January 15,” she added. She said the plaza has not received any official notice to stop selling dairy products from the four countries.

Officials from the Beijing Health Bureau were not available for comment and it is not known whether a final inspection or ban on the city’s imported dairy products that may contain dioxin will be carried out.”